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August 31, 2006

Luly Massaro, Clerk
Division of Public Utilities & Carriers
89 Jefferson Boulevard
Warwick, RI 02882

Re: Interstate Navigation Company – Petition seeking various Division Approvals to implement Interstate's Purchase of the Rhode Island Assets of Island Hi-Speed Ferry (IHSF) on November 1, 2006

Dear Luly:

Enclosed for filing are an original and five copies of a Petition of Interstate Navigation Company seeking Division Approvals to implement Interstate's Purchase of the Rhode Island Assets of Island Hi-Speed Ferry (IHSF) on November 1, 2006, together with the supporting testimony of Walter E. Edge, Jr., MBA, CPA. The following approvals are being sought:

- (1) Approval of Interstate's Purchase of the Rhode Island Assets of IHSF and Lease of the M/V *Athena* to IHSF for November 15, 2006 to May 1, 2007;
- (2) The elimination of all restrictions on Interstate's Fast Ferry CPCN;
- (3) The elimination of all restrictions on IHSF's Fast Ferry CPCN;
- (4) Transfer of IHSF's Fast Ferry CPCN to Interstate and approval to continue to hold the IHSF CPCN in abeyance (dormancy); and
- (5) Approval to continue to hold the Newport leg of Interstate's Fast Ferry CPCN in abeyance (dormancy).

Please call if you have any questions.

Very truly yours,



Michael R. McElroy

In26:Division Approvals:Massaro

Cc: Susan E. Linda
Walter E. Edge, Jr., MBA, CPA
Paul Roberti, Esq.
William Lueker,

Mark Hagopian, Esq.
Mark McSally, Esq.
Packer & O'Keefe
Joseph J. Nicholson, Jr., Esq.

State of Rhode Island and Providence Plantations
Division of Public Utilities and Carriers

In Re: Interstate Navigation Company : Docket No. D-06-_____

Petition of Interstate Navigation Company (Interstate) seeking:

(1) Approval of Interstate's Purchase of the Rhode Island Assets of Island Hi-Speed Ferry, LLC. (IHSF) and a Lease of the M/V Athena to IHSF for November 15, 2006, to May 1, 2007;

(2) Elimination of All Restrictions on Interstate's Fast Ferry CPCN;

(3) Elimination of All Restrictions on IHSF's Fast Ferry CPCN;

(4) Transfer of IHSF's Fast Ferry CPCN to Interstate and approval to continue to hold the IHSF CPCN in abeyance (dormancy); and

(5) Approval to continue to hold the Newport leg of Interstate's Fast Ferry CPCN in abeyance (dormancy)

Interstate Navigation Company (Interstate), as set forth in greater detail in the attached direct testimony of Walter E. Edge, Jr., MBA, CPA, requests various Division approvals to implement Interstate's purchase of the Rhode Island assets of IHSF on November 1, 2006. The following approvals are sought:

(1) Interstate requests approval under R.I.G.L. § 39-3-24 and § 39-3-25 of Interstate's purchase of IHSF, including, but not limited to, the M/V Athena, the IHSF CPCN, and all other assets of IHSF for the sum of \$5,612,500, as itemized in the Purchase and Sale Agreement (attached as Attachment A to the testimony of Mr. Edge). The closing is scheduled for November 1, 2006, and time is contractually "of the essence." Accordingly, Interstate respectfully requests expedited approvals for this transaction. The transaction also includes a lease back (charter) of the M/V Athena from Interstate to IHSF for the period November 15, 2006 until May 1, 2007, at the rate of \$1,285 per day, as set forth in the Bareboat Charter Agreement attached as Attachment B to the testimony of Mr. Edge. Interstate therefore respectfully requests approval of that

Charter Agreement, which will provide cash flow to Interstate to help service the \$5.6 million debt Interstate intends to incur to purchase the Rhode Island assets of IHSF.

(2) Because IHSF will no longer be operating a high speed ferry from Point Judith to Block Island, and because the restrictions imposed on Interstate's fast ferry CPCN were intended to protect IHSF, Interstate respectfully requests the elimination of all restrictions on Interstate's fast ferry CPCN, including, but not limited to, restrictions relating to scheduling and marketing, as discussed in the testimony of Mr. Edge.

(3) Because the restrictions on IHSF's fast ferry CPCN were imposed to protect Interstate, the lifeline carrier, and because IHSF will no longer be operating, and Interstate will now own IHSF's fast ferry CPCN, the restrictions are no longer necessary. Interstate therefore respectfully requests, for the reasons set forth in Mr. Edge's testimony, that the restrictions be eliminated.

(4) Interstate requests that IHSF's fast ferry CPCN be transferred to Interstate and that the IHSF CPCN being transferred (Point Judith to New Harbor) continue to be held in abeyance (dormancy).

(5) Interstate requests that the Newport leg of its fast ferry CPCN continue to be held in abeyance (dormancy).

The history of the relationship between Interstate and IHSF was summarized in Division Report and Order No. 18597 dated May 5, 2006, in consolidated Dockets D-05-06, D-06-16, and D-06-17. In that Report and Order, the Division allowed Interstate to amend its fast ferry CPCN to enable Interstate to run the M/V Athena between Point Judith and Old Harbor, and eliminated and amended the restrictions on Interstate's CPCN, but only for the 2006 operating season (Docket No. D-05-06). The Division also

allowed IHSF to hold its fast ferry CPCN to New Harbor in abeyance (dormancy), but only through May 15, 2007 (Docket No. D-06-16). Finally, the Division approved a charter of the M/V Athena from IHSF to Interstate for the summer of 2006 at the rate of \$1,285 per day.

Interstate and IHSF have now consummated a Purchase and Sale Agreement whereby Interstate has agreed to acquire all of the Rhode Island assets of IHSF, including, but not limited to, the M/V Athena and IHSF's fast ferry CPCN, with a "time is of the essence" closing to occur on November 1, 2006.

Shortly after the closing occurs, Interstate will lease back to IHSF the M/V Athena for IHSF's use on its Puerto Rico high speed operation from November 15, 2006, through May 1, 2007, at a rate of \$1,285 per day (the same rate at which IHSF chartered the vessel to Interstate for this summer). This charter will provide cash flow to Interstate that will help Interstate service the \$5.6 million debt Interstate expects to incur with the Washington Trust Company to finance the \$5,612,500 purchase of IHSF. (Please note that Interstate filed a separate petition with the Division on August 23, 2006, seeking approval of the Washington Trust Company \$5.6 million loan to support this purchase.)

In order to meet the conditions of the Purchase and Sale Agreement, and to allow Interstate to effectively operate a fast ferry from Point Judith to Block Island in the summer of 2007 and beyond, Interstate also seeks Division approval eliminating the restrictions on Interstate's fast ferry CPCN because they are no longer needed to protect IHSF; eliminating the restrictions on IHSF's fast ferry CPCN because they are no longer needed to protect Interstate; transferring IHSF's fast ferry CPCN to Interstate and

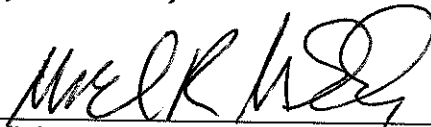
authorizing Interstate to continue to hold it in abeyance (dormancy); and authorizing Interstate to continue to hold the Newport leg of Interstate's fast ferry CPCN in abeyance (dormancy).

These approvals are conditions precedent to Interstate's purchase of IHSF and, if given, will allow Interstate to acquire IHSF's Rhode Island assets, including the M/V Athena, and continue to run a fast ferry from Point Judith to Block Island, under Interstate's ownership, for the summer of 2007 and beyond.

Accordingly, for the foregoing reasons, as well as the reasons set forth in the supporting testimony of Walter E. Edge, Jr., MBA, CPA, Interstate respectfully requests the approvals set forth herein.

Because closing must occur on November 1, 2006, and because there is additional work that must be done such as the negotiation and preparation of many closing documents, Interstate respectfully requests approval of this filing as soon as possible.

Respectfully submitted,
Interstate Navigation Company
By its attorney

 8/31/06
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CERTIFICATE OF SERVICE

I hereby certify that on the 31st day of August, I mailed a true copy of the foregoing by first class mail to the following:

Paul Roberti, Esq.
Attorney General's Office
150 South Main Street
Providence, RI 02903

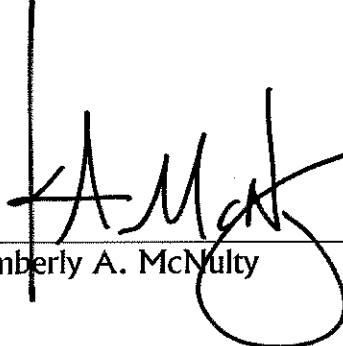
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Kimberly A. McNulty

**DIRECT TESTIMONY
OF
WALTER E. EDGE JR. MBA CPA**

IN SUPPORT OF:

**I. INTERSTATE NAVIGATION's FILING
REQUESTING APPROVAL OF INTERSTATE's
PURCHASE OF THE RHODE ISLAND ASSETS OF IHSF,
INCLUDING THE *M/V ATHENA*, CPCN, ETC., AND LEASE
OF THE *M/V ATHENA* TO IHSF**

AND

**II. INTERSTATE's REQUEST FOR THE ELIMINATION OF ALL
RESTRICTIONS ON INTERSTATE's FAST FERRY CPCN**

AND

**III. INTERSTATE's REQUEST FOR ELIMINATION OF RESTRICTIONS ON
THE IHSF FAST FERRY CPCN**

AND

**IV. INTERSTATE's REQUEST TO TRANSFER IHSF's CPCN
TO INTERSTATE AND TO CONTINUE TO HOLD
THE IHSF CPCN IN ABEYANCE**

AND

**V. INTERSTATE's REQUEST TO CONTINUE TO HOLD
THE NEWPORT LEG OF ITS FAST FERRY CPCN IN ABEYANCE**

**Before
RHODE ISLAND DIVISION OF
PUBLIC UTILITIES AND CARRIERS**

Docket No. D-06-_____

AUGUST 2006

1
2
3 **GENERAL OVERVIEW**

4 **Q. Will you please provide your full name and your employer for the record?**

5 A. Yes, my name is Walter Edward Edge Jr., MBA CPA. I am the president of B&E
6 Consulting LLC.

7 **Q. Are you the same Walter E. Edge Jr. who has previously filed expert accounting and**
8 **rate testimony for Interstate Navigation Company (Interstate) in previous dockets?**

9 A. Yes, I am.

10
11 **Q. Mr. Edge, what is the purpose of your testimony in this docket?**

12 A. This testimony has a number of purposes. First, Interstate has negotiated the purchase of all
13 of the Rhode Island assets Island Hi-Speed Ferry LLC (IHSF) including the fast ferry M/V
14 Athena, IHSF's CPCN, customer list, a covenant not to compete, etc. The closing is scheduled
15 for November 1st 2006 and "time is of the essence." This testimony, among other things, will
16 provide the information required under General Laws 39-3-24 and 39-3-25 in support of this
17 filing requesting approval from the Division for the purchase and sale.

18
19 Second, with the approval of the above purchase and sale, Interstate will own the only fast ferry
20 CPCNs authorized by the RI Division of Public Utilities and Carriers (Division) to provide non-
21 lifeline fast ferry service between Block Island and the ports of Point Judith and Newport. IHSF
22 will permanently cease RI fast ferry operations. Interstate also owns the only lifeline CPCNs
23 authorized by the Division to provide traditional service between Block Island, Point Judith and
24 Newport. Given that Interstate will own all relevant CPCNs, it is no longer necessary to have
25 any restrictions on the two fast ferry CPCNs to protect the traditional service or either fast ferry
26 service from the other. In this testimony I will also address Interstate's request to remove the
27 restrictions on both fast ferry CPCNs.

1 Third, since the fast ferry *M/V Athena* is now and will be in the future running between Point
2 Judith and Block Island (Old Harbor) up to six times a day in the summer under Interstate's Fast
3 Ferry CPCN, Interstate will not be using, at this time, the CPCN that it purchased from IHSF and
4 therefore would like to continue to hold this CPCN in dormancy. (IHSF was allowed to put it
5 into dormancy in 2006). Interstate may eventually use that CPCN when it has its second fast
6 ferry vessel. Pending the second fast ferry, Interstate would also like to hold the Newport leg of
7 its fast ferry CPCN in dormancy. (Interstate was allowed to put it into dormancy in 2006).

1 **I. PURCHASE OF THE RHODE ISLAND ASSETS OF IHSF**
2 **AND LEASE OF THE *M/V ATHENA* TO IHSF**
3

4 **Q. Relating to the filing for approval of the purchase of IHSF's RI assets, what detail**
5 **information has been provided?**

6 A. I have provided the details of the Letter Agreement signed by the parties on November 16,
7 2005 and the Asset Purchase Agreement signed by the parties April 5th 2006 (copy attached as
8 Attachment A). A separate Division filing has been made seeking financing approval from the
9 Division, in which I provided a full description of how Interstate intends to finance the purchase.
10

11 **Q. Does this purchase of all of the Rhode Island assets of IHSF change in any way**
12 **Interstate's plans to eventually build its own fast ferry?**

13 A. Yes. Although Interstate still hopes to go forward with its plans to build a larger
14 car/freight/passenger fast ferry, Interstate believes that it is only prudent at this time to use this
15 opportunity to run the *M/V Athena* on the Point Judith to Block Island run for a while to
16 determine what the actual demand is for Interstate's fast ferry service to Old Harbor. Interstate
17 has been a bit disappointed to date with the fast ferry ridership on the *M/V Athena*. Interstate
18 thinks that it needs to make its customers more familiar with the service to build demand.
19 However, Interstate is still considering, as one of its options, building a new larger fast ferry
20 vessel and running it from Point Judith to Block Island and then using the *M/V Athena* to run the
21 three way run (Point Judith --Block Island- Newport and return).
22

23 Interstate believes that the current schedule of fast ferry runs to and from the island may not
24 provide passengers with the flexibility they have come to expect from Interstate. As a result,
25 they are at times not selecting the round trip option for Interstate's fast ferry. Instead, many
26 passengers are choosing to buy a one way fast ferry ticket to the island and then returning on
27 whatever vessel (fast ferry or traditional) that is most convenient to their schedule for the ride
28 home. It appears that modifying the fast ferry schedule may result in more usage of the fast
29 ferry service. Interstate hopes to investigate this point in more detail next year.
30
31
32

1 **Q. After Interstate purchases IHSF's RI assets, will IHSF run a fast ferry operation from**
2 **Point Judith to Block Island?**

3 A. No. If Interstate's requests are approved by the Division in this docket (and by the
4 Commission in Interstate's fast ferry rate filing docket), IHSF will no longer have a Rhode Island
5 fast ferry operation. Further, IHSF and every member of IHSF will agree in perpetuity not to
6 compete with Interstate with a ferry operation of any kind from any location in Rhode Island or
7 within 25 miles of Rhode Island.

8
9 **Q. What rates does Interstate want to use for its fast ferry operation?**

10 A. The Rhode Island Public Utilities Commission (PUC) approved the use of IHSF's fast ferry
11 rates for Interstate's summer of 2006 fast ferry operations. Interstate is asking the PUC to
12 continue those same rates (See WEE-2) until Interstate sees a need to file for new rates.
13 Interstate is hopeful that the Commission will approve this reasonable request.

14
15 **Q. If the Division grants these requests and the Interstate fast ferry rates are continued by**
16 **the PUC, will Interstate operate the fast ferry service at a profit?**

17 A. Yes, I believe that it will. Per my calculations, Interstate should generate a fairly substantial
18 profit from its fast ferry operation. This profit will be used to fund Interstate's new fast ferry
19 vessel, to subsidize Interstate's traditional lifeline rates, or to otherwise enhance service to
20 customers. The PUC will determine the ultimate disposition of any net profits. See my
21 attached Schedule WEE-1 for my detailed calculations.

22
23 **Q. Is there any urgency to this request?**

24 A. Yes, very much so. We apologize, but due to the time it took to negotiate these
25 transactions, and prepare for the closing, Interstate is requesting a very fast turn around time
26 from the Division and the PUC. Interstate and IHSF need a decision early enough to put
27 together all the closing documents. The closing is scheduled for November 1st 2006 and time is
28 contractually "of the essence". Therefore, if possible, Interstate would like approval by early
29 October.

1 **Q. How does Interstate expect the Division and the Commission to be able to turn its**
2 **requests around so quickly?**

3 **A.** Interstate is hopeful that these dockets will be uncontested, that the Division can approve the
4 purchase and sale and the CPCN modifications without contested hearings, and that the PUC can
5 approve the rates by simply allowing them to stay in effect indefinitely.
6

7 **Q. What are the requirements of General Laws 39-3-24 and 39-3-25 relating to the**
8 **purchase and sale of property, assets, plant or business between public utilities?**

9 **A.** It appears, in addition to providing the objective and purpose desired by the parties and the
10 terms and conditions of the transaction, the Division must find that the transaction does not
11 diminish the facilities for furnishing service to the public and that the transaction is in the public
12 interest. I believe that both of these requirements have been satisfied by this proposed purchase
13 and sale.
14

15 **Q. Have the facilities for furnishing service been diminished by this transaction?**

16 **A.** No. Interstate expects to continue to provide substantially the same number of fast ferry
17 runs to and from the island, using the same vessel previously used by IHSF. However, the runs
18 will take less time because Interstate will be landing in Old Harbor (downtown) which is the
19 more favorable island landing location for most of Interstate's customers. Also, Interstate
20 provides a significant number of traditional runs to and from the island in addition to its fast
21 ferry runs. Passengers choosing to use the Interstate fast ferry service going to the island have
22 the option of taking any of Interstate's vessels back from the island. This option of taking any
23 of the returning Interstate vessels provides passengers with significant choice and convenience.
24

25 **Q. Are the terms of the purchase and sale consistent with the public interest?**

26 **A.** Yes. Interstate will be able to purchase the assets of IHSF and not raise the existing fast
27 ferry rates at this time. In addition, the profits from the fast ferry will be used by Interstate for
28 the public interest and not distributed to the owners of Interstate in the form of dividends.
29
30
31

1 **Q. What are the terms of the Asset Purchase Agreement?**

2 A. The Asset Purchase Agreement is attached to this testimony as Attachment 1. The major
3 terms are as follows:

- 4 1. This is an asset purchase.
5 2. There is no assumption of any debt.
6 3. Purchase Price: \$5,612,500
7 4. Earnest money deposit: \$250,000
8 5. Bank used for financing: Washington Trust Company
9 6. Approval of financing by the DPUC and rates by the PUC.
10 7. Assets purchased:
- | | | |
|---------------------|-------------|-------------------|
| ➤ <i>M/V Athena</i> | \$4,200,000 | (appraised value) |
| ➤ Customer List | 12,500 | Allocation |
| ➤ Non Compete | 500,000 | Allocation |
| ➤ Goodwill | 200,000 | Allocation |
| ➤ CPCN | 500,000 | Allocation |
| ➤ Berthing Permit | 200,000 | Allocation |
| | Total | \$5,612,500 |

11

12 8. Approvals for the transfer of assets by the DPUC

13 9. November 1, 2006 closing.
14

15 **Q. Mr. Edge, in your expert opinion, do you think that the purchase of the IHSF Rhode**
16 **Island assets by Interstate is in the best interest of Interstate and its ratepayers?**

17 A. Yes. Over the last four years, Interstate has been fighting against an onslaught of fast ferry
18 competitors to maintain ridership on its traditional ferries. For example, Interstate purchased a
19 bigger faster vessel (the *M/V Anna C*) to replace the *M/V Nelseco* on the Point Judith to Block
20 Island run and completed major renovations on the *M/V Carol Jean* in an attempt to compete
21 with the faster and fancier fast ferries. Unfortunately all of Interstate's efforts did not stop the
22 lose of ridership to its fast ferry competitors from Point Judith (IHSF) and New London (Block
23 Island Express).
24
25

1 Interstate was concerned that this loss of ridership would resulted in an increase in Interstate's
2 life-line rates, and it did. A further concern of Interstate was the fact that the profits gained from
3 the fast ferry operations were going to the benefit of the owners of the fast ferry companies and
4 not for the benefit of ratepayers. It should be noted at this time that Interstate's owners have
5 never taken profits from the company, but rather have always reinvested the profits back into the
6 company for the good of the ratepayers.

7
8 With the purchase of the IHSF assets, Interstate will gain control over the profits from the fast
9 ferry operation from Point Judith and will be able to funnel those profits back into the company,
10 as it has always done, for the good of the ratepayers. This approach, although good for the
11 ratepayers, is also good for the company. The company gains through an increase in equity and
12 a stronger financial position. Also the company gains from the reduction in competition.

13
14 **Q. In your introduction to your testimony you mentioned a letter agreement that was**
15 **signed November 16th 2005. Would you please explain the purpose for the letter and the**
16 **terms of the letter?**

17 A. Certainly. The letter was drafted to summarize the terms of the anticipated purchase and
18 sale of the Rhode Island assets of IHSF by Interstate. Before attempting to prepare a detailed
19 Asset Purchase Agreement it was necessary for the parties (that had been serious adversaries) to
20 sit down and determine if they could come to some kind of understanding as to the proposed sale
21 of the *M/V Athena* and the IHSF CPCN. After much time and negotiation, the parties were able
22 to reach agreement on the major terms of the deal and the letter agreement was signed.

23
24 The letter agreement stated that the sales price would be \$5,612,500 and that there would be a
25 deposit of earnest money of \$250,000. Because IHSF was eager to make the deal the closing
26 date was set as May 1, 2006. Unfortunately, the parties were unable to finalize the deal by May
27 1st 2006, and the parties then agreed to enter into a lease from IHSF to Interstate of the *M/V*
28 *Athena* for the summer of 2006 with the *M/V Athena* to be operated by Interstate with the
29 assistance of IHSF's captains and engineers, and training of Interstate's crews in fast ferry
30 operations.

1 As part of that agreement, the parties also negotiated a bare boat lease from Interstate to IHSF of
2 the *M/V Athena* for the winter of 2006-2007 and Interstate is also requesting approval of the
3 lease (Attachment B). This lease provides winter cash flow for Interstate to service the debt in
4 the purchase. The lease of the *M/V Athena* to Interstate from IHSF for the summer of 2006 was
5 approved by the Division in Docket No D-06-17 (Division Order # 18597).
6 The Asset Purchase Agreement addresses many of the points in the letter agreement in Section
7 9.12, Other Conditions.

8
9
10 **II. INTERSTATE's REQUEST FOR THE ELIMINATION OF ALL RESTRICTIONS**
11 **ON INTERSTATE's FAST FERRY CPCN**
12

13 **Q. Why is Interstate interested in removing all restrictions from its fast ferry CPCN?**

14 A. They are no longer needed. They were initiated to protect IHSF. Further, Interstate would
15 like one modification as well.

16
17 **Q. What modification does Interstate need the Division to approve to its fast ferry CPCN**
18 **to facilitate this purchase and sale?**

19 A. Since after the sale, IHSF will no longer be running its fast ferry from Point Judith to Block
20 Island, Interstate would like to fill that fast ferry void (as it did this summer) and run up to six
21 trips a day from Point Judith to Old Harbor in the summer instead of the three trips per day from
22 Point Judith to Old Harbor required by Interstate's fast ferry CPCN. (Note: In periods of slow
23 demand, such as early and late in the season, Interstate may reduce the number of fast ferry trips
24 and/or may run only on weekends).

25
26 Interstate believes that the public convenience and necessity will be better served if Interstate
27 continues to provide a similar service to Block Island as was previously provided by IHSF.
28 Therefore, Interstate would like to modify its CPCN (until it can build its new car/freight/
29 passenger fast ferry and put it into service) to allow trips back and forth from Point Judith to Old
30 Harbor only and not make the other more time consuming Newport leg of the three legged trip
31 set forth in Interstate's CPCN.

1 **Q. What restrictions does Interstate want lifted?**

2 A. The fact that IHSF will no longer operate a fast ferry to Block Island eliminates any need to
3 protect them and makes restrictions on Interstate's departure times meaningless. Therefore,
4 Interstate respectfully requests that the Division remove all restrictions on departure times.
5 Further, Interstate would like to also be allowed to amend its operating schedule if passenger
6 demand suggests that there is a need for change. Of course, Interstate will advise the Division
7 of any changes that it wishes to make.

8
9 Lastly, the restriction against marketing to IHSF's customer base will be moot after the purchase
10 of all IHSF assets in Rhode Island. This restriction should be likewise removed.

11
12 **III. INTERSTATE'S REQUEST FOR ELIMINATION OF RESTRICTIONS ON**
13 **THE IHSF FAST FERRY CPCN**
14

15 **Q. Mr. Edge, why is Interstate interested in removing all restrictions from the CPCN that**
16 **Interstate purchased from IHSF?**

17 A. The restrictions that were put on IHSF's CPCN were designed to protect the lifeline service
18 provided by Interstate. Since Interstate will own the CPCN, Interstate will be able to provide its
19 own protection. Clearing the CPCN of all restrictions would allow for more flexibility to
20 Interstate to maximize the profit that would be available to protect the lifeline rates.

21
22
23 **IV. INTERSTATE'S REQUEST TO TRANSFER IHSF'S CPCN**
24 **TO INTERSTATE AND TO CONTINUE TO HOLD**
25 **THE IHSF CPCN IN ABEYANCE**
26

27 **Q. Why does Interstate wish to transfer the IHSF CPCN to Interstate and then hold the**
28 **CPCN that it purchased from IHSF in abeyance at this time?**

29 A. Interstate intends to run the *M/V Athena* under its own CPCN from Point Judith to Block
30 Island (Old Harbor) up to six times a day. Interstate believes that this is the best use of the *M/V*
31 *Athena* and it satisfies the greatest public need and convenience.

1 However, Interstate is still hoping to build a new larger, car/freight/ passenger fast ferry vessel.
2 When that vessel is in operation, Interstate will have two fast ferries and may have a need for the
3 IHSF CPCN. Interstate knows how difficult it is to get a new CPCN and would like to keep its
4 options open relating to the CPCN purchased from IHSF.

5
6
7 **V. INTERSTATE'S REQUEST TO CONTINUE TO HOLD**
8 **THE NEWPORT LEG OF ITS FAST FERRY CPCN IN ABEYANCE**
9

10 **Q. Why does Interstate wish to hold the Newport leg of its fast ferry CPCN in abeyance?**

11 A. As I explained in detail in my testimony relating to the 2006 summer lease of the *M/V*
12 *Athena*, Interstate wants to replace the service provided by IHSF first by maximizing its runs
13 between Point Judith and Block Island (Old Harbor). This can not be done if Interstate has to
14 provide three trips a day between Block Island and Newport. Interstate's CPCN includes the
15 requirement to run three times a day from Point Judith to Block Island to Newport and return.
16 Three trips a day from Point Judith to and from Block Island will not satisfy the demand that was
17 serviced by IHSF, let alone address the needs of Interstate's fast ferry customers to have
18 maximum flexibility in going and coming from Block Island to encourage them to travel by fast
19 ferry. Interstate therefore respectfully requests that the three trips a day to and from Newport be
20 held in abeyance.

21
22 **Q. Are there any other issues that you would like to address at this time?**

23 A. Yes. Interstate has filed with the Division a request for approval of the financing for the
24 purchase of the Rhode Island assets of IHSF. In that filing Interstate has provided all of the
25 information necessary for the Division approve the financing. That filing provides the details of
26 the financing. Also included in that filing are my explanations of the projected revenues and
27 expenses on my Schedule WEE-1 attached to this testimony. I would ask the Division to take
28 administrative notice of that docket when reviewing this testimony.

29
30 **Q. Does that conclude your testimony?**

31 A. Yes.

Projection of Revenues and Expenditures (purchase of IHSF)
 First Full Year of Operations
 Interstate Fast Ferry

Schedule WEE-1

		<u>Proforma 1st year</u>
Revenues:		
Calculated Round Trip Ridership (May - July 2006) *	19,388 times \$29.00	\$ 562,252
Projected Round Trip Ridership (August - October 2006)	21,500 times \$29.00	<u>623,500</u>
Total Projected Passenger Revenue		1,185,752
Other Revenues (Bar, bike, etc)		75,000
Fuel Surcharge Revenue		195,000
Charter Revenue		<u>212,025</u>
Total Revenue		1,667,777
Expenses:		
Salaries and wages (\$6,000 per week X 21 weeks)		126,000
Payroll taxes (10% of S&W)		12,600
Fuel (195,000 gallons * 2.20/gallon)		429,000
Maintenance:		
Annual engine top end and overhauls	Two year average	138,000
Dry Docking	Estimate	10,000
General Maintenance	Estimate	25,000
Insurance	Estimate	30,000
Advertising	Estimate	15,000
Berthing Point Judith		4,000
Bar expense		33,000
General and Administrative Expense		
Legal and accounting		
General office supplies		
Gross Receipts Taxes		
Fees (coast guard, banking, etc)		
Total G&A Expense Estimate		100,000
<u>Debt service on \$5,600,000:</u>		
Principal	(\$5,600,000/25)	81,420
Interest	(\$5,600,000*.075)	409,003
Total Expense		<u>1,413,023</u>
Estimated net profit		<u><u>\$ 254,754</u></u>

* See testimony page 10, lines 10-15.

STATE OF RHODE ISLAND

PUBLIC UTILITIES COMMISSION

Docket No. _____

INTERSTATE NAVIGATION COMPANY

LOCAL FAST FERRY TARIFFS

Naming

PASSENGER RATES
APPLYING BETWEEN
POINTS AND PLACES IN THE STATE OF
RHODE ISLAND

(As indicated herein)

EFFECTIVE: October 10, 2006

ISSUED BY:

Interstate Navigation Company
Susan Linda, President
Post Office Box 482
New London, Connecticut 06320

RULE No. 5 PETS OR ANIMALS ACCOMPANYING PASSENGERS:

Animals or pets will not be allowed to accompany passengers aboard ships unless such animals are securely under leash.

RULE NO. 10 BAGGAGE DEFINED:

1. Baggage may be either personal or sales sample cases defined as follows: Personal luggage or baggage consisting of wearing apparel, toilet articles or similar effects in actual use, necessary and appropriate for the wear, use, comfort or convenience of the passenger for the purpose of the trip and not intended for other persons or for sale. Sample cases are those to be used by the salesman containing samples or articles or merchandise for sale and for future transportation and not articles for immediate sale forthwith.
2. Money, jewelry, negotiable papers or like valuables should not be enclosed in baggage to be checked. This carrier will not be responsible for such articles in baggage.
3. All baggage must be enclosed in receptacles such as trunks, valises, suit cases, leather hat boxes or satchels provided with handles, securely locked or otherwise fastened and made of material of sufficient strength and durability and quality to withstand the rapid handling and piling incidental to its transportation.

RULE NO. 15 BAGGAGE ACCOMPANING PASSENGER:

Each passenger purchasing an adult or child one way ticket will be allowed to transport without charge fifty (50) pounds of luggage or baggage, which must be carried on and off the ship by the passenger at points of embarkation and debarkation.

RULE NO. 20 ARTICLES IN AUTOMOBILES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 25 DAMAGE TO AUTOMOBILES IN TRANSIT:

This rule is not applicable for the fast ferry at this time.

RULE NO. 30 ROUND TRIP TICKET:

The carrier will not be responsible to persons holding round trip tickets for failure to provide return carriage due to weather or mechanical failure; the carrier will honor the return ticket by providing carriage as soon as the weather and the sea are fit for navigation and the equipment is fit to operate.

RULE NO. 35 OVERSIZED VEHICLES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 40 TIME LIMIT ON SUITS:

Suits to recover on any claim for loss of life or bodily injury must be instituted within one (1) year from the day when the death or injury occurred. Suits to recover on any claim other than loss of life or bodily injury, including breach of contract, must be instituted within (6) months of the scheduled arrival of the passenger or property at destination.

RULE NO. 45 SCREENING AND INSPECTION:

Pursuant to Homeland Security Coast Guard Regulations, entering the ferry facility is deemed valid consent to screening or inspection; and failure to consent or submit to screening or inspection will result in denial or revocation of authorization to enter.

RULE NO. 50 ARTICLES LEFT ABOARD VESSEL:

Carrier will not be responsible for articles left aboard the vessel. Such shipments shall be charged for at a minimum rates provided in the Company's tariffs.

RULE NO. 55 DAMAGE TO AUTOMOBILES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 60 CAR RESERVATION CANCELLATIONS:

This rule is not applicable for the fast ferry at this time.

RULE NO. 60 VEHICLE OVERHANG CHARGE

This rule is not applicable for the fast ferry at this time.

RULE NO. 70 NON-STANDARD VEHICLE CHARGES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 75 BLOCK TICKET SALES CHARGES:

There is a \$15.00 block ticket sales service charge for all block sales of 25 or more tickets (e.g., weddings, corporate outings and other such events).

RULE NO. 80 ONLINE SALES CHARGE:

For all on-line internet ticket sales, there is a \$2.00 service fee charge to cover postage and handling.

RULE NO. 85 LOST TICKET CHARGE:

There is a \$10.00 charge for all lost tickets which are replaced (each way).

RULE NO. 90 GROUP DISCOUNTS:

Not required at this time because of previously approved IHSF Volume Discount rate requested elsewhere in this tariff.

RULE NO. 95 ADVANCED TICKET DISCOUNT:

Carrier may sell advanced tickets on a pay for 9 tickets in advance, get 10 tickets basis.

PASSENGER RATES

1. ROUTE:

Between Galilee and Block Island
Between Block Island and Galilee

2. FARES:

a. Individual Tickets

Adult one-way	\$15.50
Adult round trip	\$29.00
Child one-way	\$ 8.75
Child round trip	\$13.50

b. Frequent User Cards

Adult	10 round trips (or 20 one-way)	\$260.00
Child	10 round trips (or 20 one-way)	\$120.00

c. Season's Pass

Not requested

d. Volume Discount

May, June, September and October	Adult	\$20.30
July and August	Adult	\$23.20

NOTE a. The passenger rates for children will apply to children four (4) years of age up to and including children (12) years of age when accompanied by an adult. For children thirteen years of age and older, the adult passenger fares published apply. Children under three (3) years of age when accompanied by an adult will be transported free of charge.

NOTE b. Applicable municipal landing fees will be added.

NOTE c. All Tickets are open ended. However, passengers will be asked for a return date and time, which will be printed on the boarding pass (for seating purposes). If the passenger's travel plans change, they must redeem the issued boarding pass at an Interstate ticket office for a new one, subject to seating availability on a particular departure. This means that passengers who change travel plans on busy weekends, for example, travel on a standby, first come first serve basis.

Because Frequent User Card holders will be allowed to proceed directly to the gate for boarding, it is recommended that at times of heavy traffic volume they check in at the ticket office before boarding, or call in advance to reserve a seat. All tickets, including Frequent User Cards, must be used during the season they are issued.

NOTE d. The season's Passes note is not needed at this time.

NOTE e. Volume Discounts are available only to passengers traveling in groups of 25 or more persons.

BICYCLE RATES

One-way	\$3.00
Round Trip	\$6.00

Attachment AASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT dated as of the 5th day of April, 2006, (the "Agreement"), is entered into by and between Interstate Navigation Company, d/b/a The Block Island Ferry, having a mailing address of Post Office Box 482, New London, CT 06320 (the "Buyer"), and Island Hi-Speed Ferry, LLC, having an address at Post Office Box 5447, Wakefield, RI 02880 (the "Seller").

WITNESSETH:

WHEREAS, Seller is desirous of selling all the assets of Island Hi-Speed Ferry, LLC (IHSF) related to its Rhode Island Point Judith to Block Island ferry operation, which consist primarily of the M/V Athena and IHSF's Certificate of Public Convenience and Necessity (CPCN) issued by the RI Division of Public Utilities and Carriers (DPUC) for IHSF's Point Judith to Block Island run (but not including any assets related to IHSF's Puerto Rico operation) and including but not limited to IHSF's RI customer list, its liquor license, food service license, good will, berthing permit in Point Judith, etc. (the "Assets", "Acquired Assets," or the "Purchased Assets");

WHEREAS, Buyer is desirous of purchasing the same on the terms and subject to the conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the premises and of the representations and warranties, covenants and agreements hereinafter made, the parties hereto do hereby agree as hereinafter set forth:

1. AGREEMENT TO BUY AND SELL ASSETS

Buyer agrees to buy from Seller (without assuming any outstanding liabilities) and Seller agrees to sell (without transferring any outstanding liabilities) to Buyer the Acquired Assets.

2. NO ASSUMPTION OF LIABILITIES

Buyer is not assuming any liabilities of Seller. The Buyer is not assuming or agreeing to perform any of Seller's liabilities, duties, undertakings and obligations, commercial or otherwise, known or unknown, fixed or contingent, choate or inchoate, liquidated or unliquidated, secured, unsecured or otherwise.

3. PURCHASE PRICE AND DEPOSIT

In consideration for the Acquired Assets, Buyer will pay to the Seller a purchase price of \$5,612,500 (the "Purchase Price"). Upon the signing of this agreement, an earnest money deposit of \$250,000 will be paid by Buyer and held in escrow in an interest bearing account, with interest accruing to Buyer, at the Washington Trust Company jointly by Attorneys Michael McElroy, Paul Baccari and Mark Hagopian, attorneys for the Buyer and Seller respectively. Said deposit will be refunded to Buyer if any of the conditions of this purchase are not met.

4. CLOSING AND PAYMENT OF THE PURCHASE PRICE

(a) Subject to the satisfaction or waiver of all of the conditions precedent set forth herein, the closing of the transaction contemplated hereby (the "Closing") shall be held at the offices of Schacht & McElroy, 21 Dryden Lane, Providence, RI 02904 at 10:00 a.m. on November 1, 2006, or such other time, date or place as Seller and Buyer shall mutually agree (the "Closing Date"). TIME IS OF THE ESSENCE FOR THIS CLOSING DATE.

(b) At the Closing, Seller shall transfer to Buyer all right, title and interest in and to all of the Acquired Assets, free and clear of all claims, liens, pledges, encumbrances, mortgages, charges, security interests, options, rights or restrictions. At the closing, the Seller, at its expense, shall deliver to the Buyer a bill of sale (with covenants of warranty as to title and as to the absence of security interests, liens, charges, encumbrances, and equities of others) and such other documents in form reasonably acceptable to counsel for the Buyer and sufficient to vest in the Buyer good and marketable title to, and all right, title and interest of the Seller in, the Acquired Assets including but not limited to Coast Guard documentation.

5. REPRESENTATIONS AND WARRANTIES OF SELLER

The Seller represents, warrants and agrees as of the date hereof as follows:

5.1 No Conflict of Seller. This Agreement and each of the agreements and other documents and instruments delivered or to be delivered to Buyer pursuant to or in contemplation of this Agreement will constitute, when so delivered, the valid and binding obligations of Seller and shall be enforceable in accordance with their respective terms. The execution, delivery and performance of this Agreement or any other agreement, document or instrument by Seller hereunder does not and will not with the passage of time or the giving of notice or both:

(i) result in a breach of or constitute a default under any indenture or loan or credit agreement of Seller, or any other material agreement, lease or instrument to which Seller is a party or by which the property of Seller is bound or affected;

(ii) result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance or claim on the Acquired Assets which may adversely affect the use of any of the Acquired Assets;

(iii) result in a violation of or default under any law, rule, or regulation, or any order, writ, judgment, injunction, decree, determination, or award;

(iv) except as otherwise set forth herein, require any approval, consent or waiver of, or filing with any entity, private or governmental, except the Washington Trust Company, the DPUC, the RI Public Utilities Commission (PUC), the RI Department of Environmental Management (DEM), the Rhode Island Coastal Resources Management Council (CRMC), and the U.S. Coast Guard.

5.2 Litigation. There is no action, suit or proceeding pending or threatened against Seller relating to the Seller's Rhode Island business or the Acquired Assets. No order, writ, injunction or decree has been issued by any court or governmental agency which might result in a

material adverse change in the Seller's business, or the Acquired Assets, or which might materially adversely affect the transactions contemplated by this Agreement.

5.3 Brokerage. Seller has not dealt with any broker or finder in connection with the transactions contemplated herein, and agrees to indemnify and hold Buyer harmless in connection with any claims for commissions or other compensation made by any broker or finder claiming to have been employed by or on behalf of Seller in connection with the transactions contemplated herein.

5.4 Vendors and Customers. Attached hereto as Exhibit 1 is a compilation of all vendors and customers with which the Seller had transactions totally more than \$1000. The Seller does not know of any event, happening or fact which would lead it to believe that any of such vendors or customers will terminate its business relationship with the Seller or, subsequent to the closing, with the Buyer.

5.5 Arm's Length Transactions. All transactions by the Seller with all parties are and have been conducted on an arm's length basis.

5.6 Tax Returns. Seller has timely filed with the appropriate governmental authorities, all tax and other returns (or requests for extensions) required to be filed by it relating to the business or assets of the Seller and such returns are true and complete and all taxes shown thereon to be due have been paid.

5.7 Accuracy of Books and Records. The books and records of the seller in all material respects are accurate and complete and there are no material matters for which proper entry has not been made in such books and records.

5.8 Employee Claims. No officer or employee of the Seller has any claim or claims against the Seller, and the Seller is not obligated or liable to any of such persons in any way or for any amounts, except current salaries or wages to employees, and reimbursable business expenses incurred in the ordinary course of business. The Seller has not received notice of any claim by any employee or former employee including but not limited to any claim alleging employment discrimination of any kind (including but not limited to age, sex, handicap, sexual orientation, ancestry, ethnic characteristics, etc.) or sexual harassment, or any claim of invasion of privacy, wrongful termination, defamation, or infliction of emotional distress.

5.9 Labor and Employment Agreements. The Seller is not a party to (i) any union collective bargaining or similar agreement, (ii) any employee benefit plan, deferred compensation plan, bonus, stock option, stock purchase, retainer, or consulting agreement, whether or not legally binding, (iii) any plan providing for "fringe benefits" to its employees, including, but not limited to, vacation, sick leave, medical, hospitalization, life insurance and other insurance plans, or related benefits, or (iv) any employment or other service agreement.

5.10 Environmental Compliance. The Seller is in material compliance with all applicable laws and regulations pertaining to environmental requirements, including, without limitation, laws and regulations concerning odors, noise, air emissions, discharge of water or pollution, and alteration of or encroachment upon any fresh water or salt water wetland, flood plain or coastal area. The Seller has not used, stored, transferred, discharged, transported or

disposed of dangerous, toxic or hazardous materials, chemicals, wastes or similar substances into the environment other than in compliance with applicable environmental law.

5.11 Necessary Property. All tangible property and all intangible property including, without limitation, all licenses, agreements, and proprietary technical information, necessary for the conduct of the Rhode Island business of the Seller, in the manner and to the extent presently conducted by the Seller, is included in the purchase and sale contemplated hereunder.

5.12 Product and Field Warranties. Seller shall assign to Buyer, to the extent assignable, any warranties given by third parties to Seller which may remain in effect.

5.13 Access Pending Closing. From and after the date of execution hereof to and including the Closing Date, the Seller agrees that (i) it will afford to the officers, employees and other authorized representatives of the Buyer free and full access to the premises, properties, books and records of the Seller, in order that the Buyer may make or cause to be made such investigations as it may deem appropriate in respect of the Acquired Assets. Notwithstanding the foregoing, Buyer shall not make copies of such books and records or remove such books and records from the Seller's offices, and Buyer shall at all times remain subject to the confidentiality agreement set forth in the November 16, 2005 Letter of Intent, which is attached hereto as Schedule 5.13 and incorporated herein, with regard to Seller's financial information. Provided, further, that Buyer shall not disclose the terms of this agreement to any non-essential, non-management level Interstate personnel, who are not directly involved in or responsible for the performance of Buyer's obligations under this agreement. Until the Closing, the existence and the terms of this agreement shall not be publicly disclosed by Buyer, except as set forth in the Letter of Intent, and as is necessary for Buyer to obtain the financing, regulatory and other approvals, permits, licenses, etc. contemplated by this agreement. Any violation of the provisions of this paragraph 5.13 by Buyer shall entitle Seller to pursue all remedies at law and in equity.

5.14 Other.

- (i) The Seller is the owner and shall as of the Closing Date have good and marketable title to the Acquired Assets free of all debts, liens mortgages, security interests and encumbrances.
- (ii) The Seller has entered into no contract relating to the Acquired Assets that will survive the closing.
- (iii) There are no judgments, liens, actions or proceedings against the Seller which may affect Seller's ability to perform this transaction.
- (iv) There are no violations of any kind, pending or to Seller's knowledge threatened, against the Acquired Assets and to the best of the Seller's knowledge, all laws, rules and regulations relating to the Acquired Assets have been complied with in all material respects.
- (v) The Seller has paid in full, or will arrange for the payment in full, of all withholding, social security, unemployment insurance, sales and other taxes and fees. The Seller shall be responsible for and agrees to pay all overtime, accrued vacation time, sick leave and any other benefits due the Seller's employees as of the date of closing.
- (vi) The property to be transferred will be delivered to Buyer in Rhode Island.

- (vii) There are no written or oral agreements of employment with an employee or group of employees or their representatives.
- (viii) Seller is duly organized and validly existing and in good standing under the laws of the State of Rhode Island.
- (ix) Seller has full power and authority to carry on its business as it is now being conducted and to own or hold under lease the properties and assets it now owns or holds under lease.
- (x) Seller has full power and as of the Closing shall have authority to sell, convey, assign, transfer and deliver the Acquired Assets to the Buyer as provided in this Agreement and to carry out any other transactions and agreements contemplated hereby.
- (xi) All proceedings required to be taken by or on the part of the Seller to authorize the Seller to enter into and carry out this Agreement, and for the Seller to sell, convey, assign, transfer and deliver the Acquired Assets, have been duly and properly taken;
- (xii) This Agreement has been duly executed and delivered by the Seller and constitutes the valid and binding obligation of the Seller enforceable in accordance with its terms.
- (xiii) To the best of Seller's knowledge, no inquiry having been made, the execution, delivery and performance of this Agreement will not violate any provision of law, any order of any court or other agency of government, the charter or by-laws or operating agreement of the Seller, or any indenture, agreement or other instrument to which the Seller is a party or by which it is bound.

6. REPRESENTATIONS AND WARRANTIES BY BUYER

As of the date hereof, Buyer represents and warrants as follows:

6.1 Authority of Buyer. This Agreement and each of the agreements and other documents and instruments delivered or to be delivered by Buyer pursuant to or in contemplation of this Agreement will constitute, when so delivered, the valid and binding obligations of Buyer and shall be enforceable in accordance with their respective terms. The execution, delivery and performance of this Agreement and any such agreement, document or instrument by Buyer and the execution, delivery and performance of this Agreement or any other agreement, document or instrument by the Buyer does not and will not with the passage of time or the giving of notice or both:

- (i) result in a breach of or constitute a default under any indenture or loan or credit agreement or under any other material agreement, lease or instrument to which Buyer is a party or by which the property of Buyer is bound or affected;
- (ii) result in a violation of or default under any law, rule, or regulation, or any order, writ, judgment, injunction, decree determination, award, indenture, material agreement, lease or instrument now in effect having applicability to Buyer;
- (iii) except as otherwise set forth herein, require any approval, consent or waiver of, or filing with any entity, private or governmental, except the Washington Trust Company, the DPUC, the PUC, the DEM, the CRMC, and the U.S. Coast Guard.

6.2 Brokerage. Buyer has not dealt with any broker or finder in connection with the transaction contemplated herein and agrees to indemnify and hold Seller harmless in connection with any claims or commissions or other compensation made by any broker or finder claiming to have been employed by or on behalf of Buyer in connection with the transactions contemplated herein.

6.3 Other

- (i) There are no judgments, liens, actions or proceedings against the Buyer which may affect Buyer's ability to perform this transaction.
- (ii) Buyer is duly organized and validly existing and in good standing under the laws of the Connecticut.
- (iii) Buyer has full power and authority to carry on its business as it is now being conducted and to own or hold under lease the properties and assets it now owns or holds under lease.
- (iv) Buyer has full power and authority to purchase and acquire the Acquired Assets to the Buyer as provided in this Agreement and to carry out any other transactions and agreements contemplated hereby.
- (v) All corporate proceedings required to be taken by or on the part of the Buyer to authorize the Buyer to enter into and carry out this Agreement, and for the Buyer to purchase and acquire the Acquired Assets, have been duly and properly taken;
- (vi) This Agreement has been duly executed and delivered by the Buyer and constitutes the valid and binding obligation of the Buyer enforceable in accordance with its terms.
- (vii) To the best of Buyer's knowledge, no inquiry having been made, the execution, delivery and performance of this Agreement will not violate any provision of law, any order of any court or other agency or any indenture, agreement or other instrument to which the Buyer is a party or by which it is bound.

7. INDEMNIFICATION

7.1 Indemnification by the Seller. The Seller hereby agrees to defend, indemnify and hold Buyer harmless from and against, any damages, liabilities, losses and expenses (including, without limitation, reasonable attorney's fees) of any kind or nature whatsoever which may be sustained or suffered by Buyer arising out of, based upon, or by reason of (i) any incident which relates to the assets to be acquired hereunder or the operation of Seller's business and which occurs prior to the Closing Date and (ii) a breach of any representation or warranty, or a failure to perform any agreement or covenant, made by Seller in this Agreement or by reason of any claim, action or proceeding asserted or instituted growing out of any matter or thing covered by such breached representations, warranties or covenants or by any liabilities of Seller of which Buyer is not aware as of the Closing Date.

7.2 Indemnification by the Buyer. The Buyer hereby agrees to defend, indemnify and hold Seller harmless from and against any damages, liabilities, losses and expenses (including, without limitation, reasonable attorneys' fees) of any kind or nature whatsoever which may be sustained or suffered by Seller arising out of, based upon, or by reason of (i) any incident

which occurs after the Closing Date and which relates to the assets to be acquired hereunder or the operation of the business and which occurs after the Closing Date, and (ii) a breach of any representation or warranty, or a failure to perform any covenant, made by the Buyer in this Agreement or by reason of any claim, action or proceeding asserted or instituted growing out of any matter or thing covered by such breached representations, warranties or covenants.

7.3 Limitations of Indemnification.

The amount which the indemnifying party is required to pay to, for, or on behalf of the indemnified party pursuant to this Article 7 shall be reduced by any insurance proceeds actually received by or on behalf of the indemnified party in connection with the indemnifiable loss (the "Indemnifiable Loss"). Any such amount required to be paid, as so reduced, is an "Indemnity Payment." If the indemnified party shall have received, or if the indemnifying party shall have paid on its behalf, an Indemnity Payment in respect of an Indemnifiable Loss and shall subsequently receive, directly or indirectly, insurance proceeds in respect of such Indemnifiable Loss, then the indemnified party shall pay to the indemnifying party the amount of such insurance proceeds or, if less, the amount of the Indemnity Payment.

7.4 Notice, Defense of Claims. Each party to this Agreement shall give prompt written notice to the other party to this Agreement of each claim for indemnification hereunder specifying the amount and nature of the claim, and of any matter which is likely to give rise to an indemnification claim. Each party to this Agreement has the right to participate at its own expense in the defense of any such matter or its settlement, but the indemnifying party shall have the right to control the defense of settlement of such matter. Failure to give timely notice of a matter which may give rise to an indemnification claim shall not affect the rights of the indemnified party to collect such claims from the indemnifying party so long as such failure to so notify does not materially adversely affect the indemnifying party's ability to defend such claim against a third party. No indemnifying party, in the defense of any claim or litigation, shall, except with the consent of an indemnified party, which consent shall not be unreasonably withheld or delayed, consent to entry of any judgment or enter into any settlement by which such indemnified party is to be bound and which judgment or settlement does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

8. MISCELLANEOUS COVENANTS AND AGREEMENT OF SELLER AND OF BUYER

8.1 Survival of Representations, Warranties, Agreement, Covenants and Obligations. Except as regards payment of taxes, which representations shall survive until the expiration of any applicable statute of limitations, all representations, warranties, agreements, covenants and obligations herein or in any exhibit, schedule, or financial statement disclosed by either party to the other party incident to the transactions contemplated hereby shall be deemed to have been relied upon by the other party, shall survive the execution and delivery of this Agreement, any investigation at any time made by any party hereto, and the sale and purchase of the Acquired Assets for a period of one year from the Closing Date.

8.2 Further Assurances. From time to time after the Closing and without further consideration, the parties will execute and deliver, or arrange for the execution and delivery of such other instruments of conveyance and transfer and take such other action or arrange for

such other actions as may reasonably be requested to more effectively complete any of the transactions provided for in this Agreement or any documentation annexed hereto.

8.3 Use of Name. After the Closing, Seller shall not use the name "Island Hi-Speed Ferry" (or any similar name) within the State of Rhode Island or within 25 miles of the Rhode Island border alone or in any combination as part of any trade or business name, for the purpose of transporting passengers or freight to Block Island and Seller hereby consents to Buyer using the name "Block Island High Speed Ferry" or any similar name from and after the Closing Date. However, Seller may use the name "Island Hi-Speed Ferry" for a Greenport, NY to New Harbor ferry run.

8.4 Documents. Seller shall deliver all original records and documents of the Company that relate to the Acquired Assets, except employee records and attorney work product.

8.5 Contracts, Licenses and Permits. Seller agrees to cooperate with Buyer's efforts to secure the transfer to Buyer or the reissuance or issuance in the name of Buyer of all contracts, consents, leases, licenses and permits required under applicable law or regulation, federal, state and local or necessary to the ownership and location of the Acquired Assets and/or the operation of the business, except for any agreement Seller may have to use Payne's Dock to conduct its existing or future Block Island business.

8.6 Taxes, Assessments, and Charges. In no event will Buyer be liable for any taxes, assessments, or charges which may be imposed upon the Acquired Assets prior to the Closing Date.

8.7 Non-Competition. Seller and all owners of Seller agree and covenant that they and any related or affiliated entity or persons shall not, directly or indirectly, anywhere within Rhode Island or within 25 miles of the Rhode Island border, in perpetuity, from the Closing Date, form, acquire or become associated in any capacity or to any extent, directly or indirectly, with an enterprise similar to or competitive with the Rhode Island ferry business of Island Hi-Speed Ferry, LLC. In the event of a breach or a threatened breach by Seller of this Paragraph 8.7, Buyer shall be entitled to an injunction restraining such breach, but nothing herein shall be construed as prohibiting Buyer from pursuing any remedy available to Buyer for such breach or such threatened breach. This non-compete shall not apply to a ferry from Greenport, or anywhere within fifteen (15) miles of Greenport, Long Island, New York to New Harbor, or Old Harbor, Block Island. This provision shall survive the closing. Nothing herein shall be construed as a waiver of Buyer's rights to appeal the award of an Assent by the CRMC to Ballard's for the construction of a marina in Old Harbor, Block Island and all such rights are reserved.

Buyer and all owners of ten (10)% percent or more of the voting stock of Buyer, and Joshua Linda, agree and covenant that they and any affiliated entity in which they own 10% percent or more of the voting stock shall not, directly or indirectly, anywhere within Puerto Rico or within 25 miles of the Puerto Rico border, or anywhere within fifteen (15) miles of Greenport, Long Island, New York, in perpetuity, from the Closing Date, form, acquire or become associated in any capacity or to any extent, directly or indirectly, with an enterprise similar to or competitive with the ferry business of Island Hi-Speed Ferry, LLC. In the event of a breach or a threatened breach by Buyer of this Paragraph 8.7, Seller shall be entitled to an injunction restraining such breach, but nothing herein shall be construed as prohibiting Seller from pursuing any remedy available to Seller for such breach or such threatened breach. This provision shall survive the

closing. Nothing herein shall be construed to prevent Buyer, or any owner of 10% percent or more of the voting stock of Buyer, or Joshua Linda, from entering into a charter of the Motor Vessel Athena, or any other ferry vessel, to any entity or person, including but not limited to any entity or person doing business within 25 miles of the Puerto Rico border. Provided, however, that if Buyer wishes to charter the Motor Vessel Athena to any person or entity doing business within 25 miles of the Puerto Rico border, then in that event, Buyer must first offer the Athena for charter to Seller on commercially reasonable terms and Seller must reject the offer in writing, or Seller must fail to respond to the offer within 10 business days of the mailing of the written offer from Buyer.

9. CONDITIONS PRECEDENT TO THE OBLIGATION OF BUYER TO CLOSE

The obligation of Buyer to acquire the Acquired Assets as contemplated hereby, and to perform its other obligations hereunder to be performed on or after the Closing date, shall be subject to the fulfillment, on or prior to the Closing Date, unless otherwise waived in writing by Buyer, of the following conditions:

9.1 Representations and Warranties. The representations and warranties of Seller set forth in this Agreement shall be true and correct in all material respects on the Closing Date as if made on and as of such date.

9.2 Threatened or Pending Proceedings. No proceedings shall have been initiated or threatened by any governmental department, commission, bureau, board, division, agency or instrumentality or any other bona fide third party seeking to enjoin or otherwise restrain or to obtain an award for damages in connection with the consummation of the transactions contemplated hereby.

9.3 Authorization. All action necessary to authorize (i) the execution, delivery and performance by Seller of this Agreement and (ii) the consummation of the transactions contemplated hereby and thereby shall have been duly and validly taken by Seller, and Buyer shall have been furnished with copies of all applicable votes/resolutions certified by the appropriate officer.

9.4 Secretary of State. The Seller shall have delivered to the Buyer a certificate of good standing with respect to the Seller, in customary form, dated not earlier than ten (10) days prior to the Closing Date, issued by the Secretary of State of Rhode Island.

9.5 Division of Taxation. The Seller shall have delivered to the Buyer (i) a certificate of good standing with respect to the Seller, in customary form, date not earlier than ten (10) days prior to the closing date, issued by the Division of Taxation of the State of Rhode Island, and (ii) a waiver of the lien of the Tax Administrator of the State of Rhode Island pursuant to R.I.G.L. § 44-11-29 with respect to the sale of the Acquired Assets to the Buyer.

9.6 Seller Approval. All members of the Seller shall have approved the transfer and delivery of the Acquired Assets, and shall have authorized the execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby, and the Seller shall have executed and delivered to the Buyer a certificate attesting to such approval and authorization.

9.7 Intentionally Omitted.

9.8 No breach of representations. There shall not have been any breach of the representations and warranties of the Seller contained in this Agreement, and such representations and warranties shall be true and correct in all material respects on and as of the closing date.

9.9 Compliance with covenants. The Seller shall have performed and complied with all material covenants and conditions required by this Agreement to be performed or complied with by it on or as of the closing date.

9.10 Opinion of counsel. Intentionally Omitted.

9.11 Additional Closing Documents. In addition to the other documents, instruments and certificates to be provided by the Buyer and the Seller at the Closing, the Buyer and the Seller shall at or after the Closing execute and deliver to the other such further instruments evidencing conveyance and assumption as the other shall reasonably require.

9.12 Other Conditions. The purchase will also be subject to and contingent upon the following additional conditions:

1. Financing for the \$5,612,500 purchase price must be approved by a written loan commitment issued no later than 60 days from the signing of this Agreement by the Washington Trust Company, and the DPUC and the PUC must approve the financing in due course. In the event the financing commitment is withdrawn through no fault of Buyer, (i.e., bank failure, act of God or other catastrophe affecting Buyer's existing fleet), Buyer shall not be obligated to close the transaction and shall be entitled to return of its deposit. In such event Buyer shall remain bound to all of the terms, covenants and conditions of the confidentiality agreement between the parties.
2. All approvals for the transfer of the assets, including the vessel and the CPCN, must be received from all appropriate entities, including, but not limited to, the DPUC and the PUC. The DPUC approval must include an amendment to the CPCN to allow landing in Old Harbor and must allow all changes sought by Interstate in the operating schedule.
3. All necessary approvals must be received from the PUC to allow Interstate to operate at no less than the rates IHSF currently has in effect, plus applicable statutory fuel surcharges, and a form of regulation reasonably satisfactory to Interstate must be approved by the PUC.
4. Intentionally omitted
5. A non-compete agreement protecting Buyer as described in Paragraph 8.7 must be signed.
6. A non-compete agreement protecting Seller as described in Paragraph 8.7 must be signed.
7. There must be no restrictions on Interstate's ability to contract with Gladding-Hearn or any other boat builder to build a high speed ferry.
8. Interstate must obtain the right to land the M/V Athena at the Interstate Nav. docking facilities in Old Harbor.
9. At Interstate's option, IHSF will assign its right to land at Payne's Dock in New Harbor to Interstate if: 1) the DPUC requires Interstate to land there or Interstate is unable to secure the right to land the Athena at the Interstate Nav. docking facilities in Old Harbor and 2) IHSF has not reached an agreement with Payne's to dock a fast ferry at its New Harbor dock for IHSF's Greenport Service. Interstate shall provide IHSF with documentary proof, satisfactory to IHSF, of the occurrence of the facts and circumstances referred to in subparagraph 1) of this paragraph.

10. IHSF and its members must be in a position to transfer good, clear and marketable title to the M/V Athena, the CPCN, and all other assets related to the Block Island operation to Interstate free and clear of any and all liens, encumbrances, security interests, charges, pledges, and equities of others. Its agreed that this is an asset purchase, not a purchase of IHSF.

11. The allocation of the purchase price shall be as follows:

a. M/V Athena	\$4,200,000
b. Customer List	12,500
c. Covenant not to compete	500,000
d. Goodwill	200,000
e. CPCN	500,000
f. Berthing Permit	200,000

Or, in such other manner as is IHSF and Interstate shall agree.

12. The closing will be on November 1, 2006, unless otherwise agreed. Time is of the essence.

13. Any and all necessary Coast Guard approvals must be obtained, including, but not limited to, approvals of IHSF's vessel and facility security plans, which will be assigned to Interstate.

14. The M/V Athena must be delivered to Interstate ready for service, in the same or better overall condition as it was found by Marine Safety Consultants, Inc. in its appraisal survey dated November 3, 2005, with the exception that all engines will have been completely overhauled (top and bottom), and new seals will have been installed on all water jets, at IHSF's sole cost. Interstate acknowledges that IHSF will operate the M/V Athena on a run in Puerto Rico in the winter of 2005-2006 and that there will be approximately 1,400 to 1,500 hours put on the overhauled engines when the boat is delivered to Interstate, but the vessel, including all equipment and its engines and water jets, must be delivered in overall very good to excellent condition, as it was found on November 3, 2005, by the vessel appraiser, reasonable wear and tear excepted. Interstate and an appraiser will be entitled to inspection of the vessel prior to the closing to assure compliance with this paragraph. The November 3, 2005 appraisal will be redirected to Interstate and/or the Washington Trust Company in accordance with the November 16, 2005, letter agreement so that Interstate can begin to pursue financing. Notwithstanding anything to the contrary contained herein, in the event Interstate agrees to charter the M/V Athena from Seller prior to the Closing, Seller's obligation under this paragraph shall be measured as of the date of the charter, and Seller shall have no further obligation as to the condition of the vessel after delivery to Interstate in connection with such charter.

15. At the closing, IHSF will deliver to Interstate the vessel, the CPCN, all vessel documentation, including warranties, operating manuals, etc., vessel transfer documentation, all customer lists, including tour groups, all maintenance records, all books and records, (except for employment records), the berthing permit, the liquor and food service licenses, and all other documents related to the Block Island operation, except for attorney work product, all of which will be transferred and assigned to Interstate. Financial statements and tax returns will be made available for Interstate to review, but copies will not be made available.

16. Any permission needed from the Coastal Resources Management Council (CRMC) under R.I.G.L. § 46-23-6 must be obtained.

17. IHSF will cooperate and assist on a timely basis in the process of meeting the above conditions, including the processing of all applications and requests which are needed to meet all of the conditions set forth in this agreement.
18. Upon execution of the November 16, 2005, letter agreement, Interstate was conditionally released from its confidentiality agreement to the extent reasonably necessary to begin the process of obtaining all necessary approvals. The confidentiality agreement shall survive the closing of the transaction contemplated hereby as it relates to any financial information, records etc. of Seller reviewed by or turned over to Buyer and in that event it shall have prospective effect, as if it had not been conditionally released. At closing IHSF shall deliver to Interstate a complete release of the confidentiality agreement.
19. IHSF's docking rights (berthing permit that follows the vessel) in Galilee must be transferred to Interstate. This transfer must be consented to in writing by DEM.
20. At the closing, Interstate and IHSF will execute and deliver to each other a complete mutual general release of all claims against each other, including, but not limited to, dismissal of all suits, dockets, or other proceedings.
21. Prior to commencement of operation, Interstate will remove and/or cover all identifying logos and marks from the Athena.
22. Seller:
 - (1) Will comply with any applicable Bulk Sales Act requirements.
 - (2) Will make arrangements so that calls to its toll free number(s) for its RI business will be forwarded to Buyer, and so that emails or other ticket or sales contacts are forwarded to Buyer, at Seller's expense, through November 1, 2006.

10. CONDITIONS PRECEDENT TO OBLIGATION OF SELLER TO CLOSE

The obligation of Seller to sell the Acquired Assets as contemplated hereby, and to perform its other obligations hereunder to be performed on or after the Closing, shall be subject to the fulfillment, on or prior to the Closing Date, unless otherwise waived in writing by Seller, of the following conditions:

10.1 Representations and Warranties. The representations and warranties of Buyer set forth in Article 6 hereof shall be true and correct in all material respects on the Closing Date as if made on and as of such date.

10.2 Threatened or Pending Proceedings. No proceedings shall have been initiated or threatened by any governmental department, commission, board, bureau, agency or instrumentality or any other bona fide third party seeking to enjoin or otherwise restrain or to obtain an award for damages in connection with the consummation of the transactions contemplated hereby.

11. TERMINATION OF AGREEMENT.

11.1 Termination for Cause. In addition to the rights of the Seller and the Buyer to terminate this Agreement for failure of satisfaction of applicable conditions, this Agreement and the transactions contemplated hereby, except for the provisions in Article 7, 8.1, 8.7, and 9.12(5) which shall survive, this agreement may be terminated and the Buyer's deposit returned to Buyer at any time prior to the Closing Date:

- (a) By mutual written consent of the Seller and the Buyer;
- (b) By the either party if there has been a material misrepresentation or breach of warranty in the representations and warranties of the other.

11.2 Default. If Buyer defaults without cause, Seller may retain the \$250,000 deposit as its sole and exclusive remedy at law and in equity. If Seller defaults without cause, Buyer shall have the deposit returned, with accrued interest, and shall also have the right to pursue any and all legal and equitable remedies, including specific performance, and if Buyer prevails, shall be entitled to an award of reasonable attorney's fees and costs.

12. MISCELLANEOUS

12.1 Bulk Sales Laws. Seller must comply with any applicable bulk sales laws. Seller hereby agrees to indemnify and save harmless Buyer in respect of all loss, damage, cost, liability and expense, including reasonable attorneys' fees and costs of investigation relating to any cause of action or other claim for relief arising out of or based upon the laws of any jurisdiction relating to sales of property in bulk, whether asserted prior to or subsequent to the Closing Date.

12.2 Expenses. Except as otherwise provided herein, the Buyer and the Seller shall pay the fees and expense of their respective accountants and legal counsel incurred in connection with the transactions contemplated by this Agreement.

12.3 Notices. Any demand, notice or other communication required or permitted under or in connection with the transactions contemplated by this Agreement shall be in writing and shall be deemed to be effective when delivered in person or deposited in the United States mail and sent by certified or registered mail, return receipt requested, postage prepaid, addressed as follows (or to such other addresses as may be provided by the party to be notified on ten days prior written notice to the other parties hereto):

To Seller: Island Hi-Speed Ferry, LLC
 P.O. Box 5447
 Wakefield, RI 02880

With a copy to: Mark Hagopian, Esq.
 60 South County Commons Way
 Suite G5
 South Kingstown, RI 02879

And

Rick Nolan
Boston Harbor Cruises
1 Long Wharf
Boston, MA 02110

To Buyer: Interstate Navigation Company
 P.O. Box 482
 New London, CT 06320

With a copy to: Michael R. McElroy, Esq.
Schacht & McElroy
P.O. Box 6721
Providence, RI 02940-6721

12.4 Waiver. The failure of any party hereto at any time or times hereafter to exercise any right, power, privilege or remedy hereunder or to require strict performance by the other or another party of any of the provisions, terms or conditions contained in this Agreement or in any other document, instrument or agreement contemplated hereby or delivered in connection herewith shall not waive, affect, or diminish any right, power, privilege or remedy of such party at any time or times thereafter to demand strict performance thereof; and, no rights of any party hereto shall be deemed to have been waived by any act or knowledge of such party, or any of its agents, officers or employees, unless such waiver is contained in an instrument in writing, signed by such party. No waiver by any party hereto of any of its rights on any one occasion shall operate as a waiver of any other of its rights or any of its rights on a future occasion.

12.5 Section Headings. The section headings in this Agreement are for convenience of reference only and shall not be deemed to be a part of this Agreement or to alter or affect any provisions, terms or conditions contained herein.

12.6 Severability. Whether possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason in any jurisdiction, such declaration shall have no effect upon the remaining portions of this Agreement which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted. Furthermore, the entirety of this Agreement shall continue in full force and effect in all other jurisdictions.

12.7 Entire Understanding. This Agreement contains the entire understanding between the parties hereto with respect to the transactions contemplated hereby and such understanding shall not be modified except in a writing signed by or on behalf of the parties hereto.

12.8 Binding Effect. This Agreement shall be binding upon and shall insure to the exclusive benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and assigns. This Agreement is not intended to, nor shall it, create any rights in any other party.

12.9 Governing Law. This Agreement is and shall be deemed to be a contract entered into and made pursuant to the laws of the State of Rhode Island and shall in all respects be governed, construed, applied and enforced in accordance with the laws of said state, without reference to conflict of laws principles.

12.10 References. Each reference herein to a party hereto shall be deemed to include such party's legal representatives, successors and assigns, all of whom shall be bound by the provisions hereof. Each reference to a party hereto and any pronouns referring thereto as used herein shall be construed in the masculine, feminine, neuter, singular or plural, as the context may require.

12.11 No Assignment. No party hereto shall sell, pledge, assign or otherwise transfer its rights under this Agreement without the prior written consent of the other party hereto.

12.12 Counterparts. This Agreement may be signed in any number of counterparts each of which shall be deemed to be an original and all of which together shall constitute but one and the same instrument.

12.13 Conduct of Business. The Seller will conduct business up to the date of the closing in the normal and regular manner and will not enter into any contract except as may be required in the regular course of business.


12.14 Contracts. The Buyer assumes no responsibility for any business contract made by the Seller not disclosed herein in Exhibit 3. As to those contracts disclosed, the Buyer may, at its option, assume such responsibility from and after the closing, provided that the Seller is not in default or arrears under any such contracts as of the closing. The Seller agrees to indemnify and hold harmless the Buyer, against all claims, cost and expense arising from the conduct of the business prior to the date of closing.

12.15 Risk of Loss. The Seller assumes all risk of loss due to fire or other casualty up to the time of closing. In the event any such loss occurs prior to the date of closing, or in the event the business is closed or interrupted by reason of any event not in the ordinary course of business, the Buyer shall have the right to terminate this agreement, on written notice to the Seller and upon such termination there shall be no further liability on the part of any party hereto, and Buyer shall be entitled to an immediate refund of its deposit, plus accrued interest.

WITNESS:

SELLER:

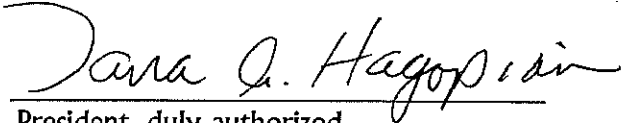
Island Hi-Speed Ferry, LLC
By: Harbor Cruises, LLC, d/b/a
Boston Harbor Cruises, Member



By: 
Its: Manager, duly authorized


By: Galilee Group, Inc. Member




By: 
Its: President, duly authorized

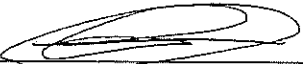
BUYER:

Interstate Navigation Company



By: 
Its: President, duly authorized


As to Section 8.7:



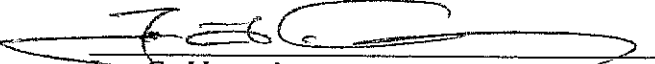
Frederick L. Nolan III



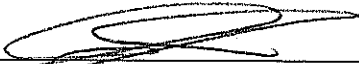
Christopher Nolan




Mark J. Hagopian



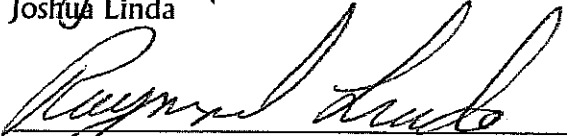
Jon G. Hagopian



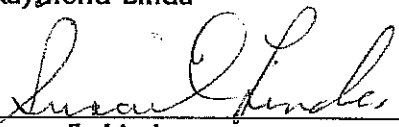
Alison Nolan



Joshua Linda




Raymond Linda



Susan E. Linda

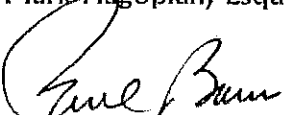
Escrow Agents:



Michael McElroy, Esquire



Mark Hagopian, Esquire



Paul Baccari, Esquire

EXHIBIT 1
LIST OF VENDORS AND CUSTOMERS

EXHIBIT 2
WARRANTIES

NONE

**EXHIBIT 3
CONTRACTS**

Schedule 8.13

Schacht & McElroy

*Robert M. Schacht
Michael R. McElroy*

Attorneys at Law

(401) 351-4100

fax (401) 421-5696

*Members of Rhode Island
and Massachusetts Bars*

21 Dryden Lane

Post Office Box 6721

Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com

McElroyMik@aol.com

November 16, 2005

Mark Hagopian, Esq.
Hagopian & Hagopian
60 South County Commons Way
Suite G5
South Kingstown, RI 02879

Dear Mark:

This is to follow up on your e-mail of November 16, 2005.

Interstate Navigation Company (Interstate) will purchase all the assets of Island Hi-Speed Ferry, LLC (IHSF), which consist primarily of the M/V *Athena* and IHSF's Certificate of Public Convenience and Necessity (CPCN) issued by the RI DPUC for the Point Judith to Block Island run (but not including any assets related solely to its Puerto Rico operation) for the sum of \$5,612,500, cash.

The parties will execute a purchase and sale agreement reasonably and in good faith satisfactory to Interstate and its counsel and to IHSF and its counsel by December 8, 2005, unless the parties mutually agree to extend this date. Upon the signing of the agreement, an earnest money deposit of \$250,000 will be paid by Interstate and held in escrow in an interest bearing client account jointly by Michael McElroy and Mark Hagopian. Said deposit will be refunded to Interstate if any of the conditions of this purchase are not met.

The purchase will be subject to and contingent upon the following conditions, as well as such other conditions as the parties may mutually agree to:

1. Financing for the \$5,612,500 purchase price must be approved by a commitment issued no later than 60 days from the signing of the P & S (and subsequently closed) by the Washington Trust Company, and the DPUC and the PUC must approve the financing in due course.

Mark Hagopian, Esq.
November 16, 2005
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2. All approvals for the transfer of the assets, including the vessel and the CPCN, must be received from all appropriate entities, including, but not limited to, the DPUC and the PUC. The DPUC approval must include an amendment to the CPCN to allow landing in Old Harbor and must allow changes in the operating schedule.
3. All necessary approvals must be received from the PUC to allow Interstate to operate at no less than the rates IHSF currently has in effect, plus applicable statutory fuel surcharges, and a form of regulation reasonably satisfactory to Interstate must be approved by the PUC.
4. IHSF shall, upon execution of the Purchase and Sale agreement and payment of the earnest money deposit by Interstate, immediately notify the DPUC that it is withdrawing its opposition to Interstate's requested CPCN for its proposed Point Judith to Block Island to Newport high speed ferry run, without prejudice, and if requested by Interstate will file testimony or take whatever other action is deemed reasonably necessary to support the granting of the CPCN, without conditions. Initially, upon the execution of this letter agreement, a joint telephone call will be made to the hearing officer to inform him of IHSF's conditional withdrawal of its opposition. The DPUC must subsequently approve the CPCN, without conditions, except that the DPUC may require that the transaction between IHSF and Interstate close on all terms set forth in the P&S and on such other terms and conditions satisfactory to Interstate and IHSF as the DPUC and PUC require. At closing IHSF shall deliver to Interstate and file with the DPUC formal notice to the DPUC that its opposition to Interstate's CPCN is withdrawn, with prejudice.
5. A non-compete agreement must be signed by IHSF and every member of IHSF must agree in perpetuity not to compete with a ferry operation of any kind from any location in Rhode Island, or within 25 miles of the Rhode Island border, to Block Island. It is understood that the non-compete will not apply to IHSF operating a ferry from Greenport, N.Y. to Block Island.
6. There must be no restrictions on Interstate's ability to contract with Gladding-Hearn or any other boat builder to build a high speed ferry.
7. Interstate must obtain the right to land the M/V *Athena* at the Interstate Nav. docking facilities in Old Harbor.
8. At Interstate's option, IHSF will assign its right to land at Payne's Dock in New Harbor to Interstate if: 1) the DPUC requires Interstate to land there or Interstate is unable to secure the right to land the *Athena* at the Interstate Nav. docking

Schacht & McElroy

Mark Hagopian, Esq.
November 16, 2005
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facilities in Old Harbor and 2) IHSF has not reached an agreement with Payne's to dock a fast ferry at its New Harbor dock for IHSF's Greenport Service.

9. IHSF and its members must be in a position to transfer good, clear and marketable title to the M/V *Athena*, the CPCN, and all other assets related to the Block Island operation to Interstate free and clear of any and all liens, encumbrances, security interests, charges, pledges, and equities of others. We agree that this is an asset purchase, not a purchase of IHSF.
10. The parties will work together with the advice of tax and regulatory advisers on the allocation of the purchase price to the vessel, the CPCN, goodwill, customer base, covenant not to compete, etc.
11. The closing will be on May 1, 2006, unless otherwise agreed. Time is of the essence.
12. Any and all necessary Coast Guard approvals must be obtained, including, but not limited to, approvals of IHSF's vessel and facility security plans, which will be assigned to Interstate.
13. The M/V *Athena* must be delivered to Interstate ready for service, in the same or better overall condition as it was found by Marine Safety Consultants, Inc. in its appraisal survey dated November 3, 2005, with the exception that all engines will have been completely overhauled (top and bottom), and new seals will have been installed on all water jets, at IHSF's sole cost. Interstate acknowledges that IHSF will operate the M/V *Athena* on a run in Puerto Rico in the winter of 2005-2006 and that there will be approximately 1,400 to 1,500 hours put on the overhauled engines when the boat is delivered to Interstate, but the vessel, including all equipment and its engines and water jets, must be delivered in overall very good to excellent condition, as it was found on November 3, 2005, by the vessel appraiser, reasonable wear and tear excepted. Interstate and an appraiser will be entitled to inspection of the vessel prior to the closing to assure compliance with this paragraph. The November 3, 2005 appraisal will be redirected to Interstate upon execution of this letter so that Interstate can begin to pursue financing.
14. At the closing, IHSF will deliver to Interstate the vessel, the CPCN, all vessel documentation, including warranties, operating manuals, etc., vessel transfer documentation, all customer lists, including tour groups, all maintenance records, all books and records, (except for employment records), and all other documents related to the Block Island operation, except for attorney work product, all of which will be transferred and assigned to Interstate. Financial statements and tax returns

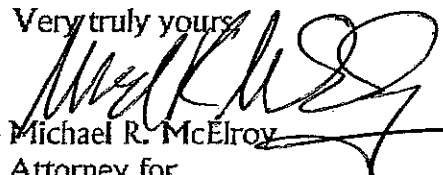
Mark Hagopian, Esq.
November 16, 2005
Page 4

will be made available for Interstate to review, but copies will not be made available.

15. Any permission needed from the Coastal Resources Management Council (CRMC) under R.I.G.L. § 46-23-6 must be obtained.
16. IHSF will cooperate and assist on a timely basis in the process of meeting the above conditions, including the processing of all applications and requests which are needed to meet all of the conditions set forth in this letter agreement.
17. Upon execution of this letter agreement, Interstate will be conditionally released from its confidentiality agreement to the extent reasonably necessary to begin the process of obtaining all necessary approvals. The confidentiality agreement shall survive the failure of Interstate to obtain all necessary approvals and in that event it shall have prospective effect, as if it had not been conditionally released. At closing IHSF shall deliver to Interstate a complete release of the confidentiality agreement.
18. IHSF's docking rights (berthing permit that follows the vessel) in Galilee must be transferred to Interstate.
19. At the closing, Interstate and IHSF will execute and deliver to each other a complete mutual general release of all claims against each other, including, but not limited to, dismissal of all suits or other proceedings.
20. Prior to commencement of operation, Interstate will remove all identifying logos and marks from the *Athena*, including the bi-colored wave insignia on the port and starboard hulls.

If this is acceptable, please sign where indicated below.

Very truly yours,


Michael R. McElroy
Attorney for
Interstate Navigation Company
duly authorized

11/16/05


MRMc:tmg
ln23:IHSF-Hagopian9
cc: Susan E. Linda
Frederick Nolan

Schacht & McElroy

Mark Hagopian, Esq.
November 16, 2005
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AGREED AND APPROVED:

ISLAND HI-SPEED FERRY, LLC.

By:  _____

Its: PRINCIPAL AND GENERAL COUNSEL

Dated: NOVEMBER 16, 2005

BAREBOAT CHARTER

THIS BAREBOAT CHARTER, made and concluded as of this 5th day of April, 2006, effective as of November 15, 2006, is between Interstate Navigation Company, Inc. d/b/a The Block Island Ferry, 14 Eugene O'Neill Drive, P.O. Box 482, New London, Connecticut ("Owner") and Island Hi-Speed Ferry, LLC, of 60 South County Commons Way, Suite G-5, South Kingstown, Rhode Island ("Charterer") and Harbor Cruises, LLC d/b/a Boston Harbor Cruises, of 1 Long Wharf, Boston, Massachusetts 02110 ("Alternate Charterer") with regard to the Motorship ATHENA (the "Vessel"), official number 1113316, having aluminum hull and 249-passenger capacity.

WITNESSETH, that the Owner is expected to be the owner of the Vessel on or before November 15, 2006.

WITNESSETH, that the said Owner agrees to let, and the said Charterer agrees to hire the said Vessel, from the time of delivery, for such period as set forth below as the Charterer may determine within below mentioned trading limits. Owner understands that Charterer intends to use the Vessel to satisfy a contract with the government of Puerto Rico. If for any reason that contract is not renewed, or is terminated by either party before November 15, 2006, Owner agrees that it will be impossible for Charterer to perform this agreement and it will become null and void as to Charterer, provided that Charterer gives owner written notice of such event no later than November 5, 2006. In such event, Alternate Charterer agrees to perform this charter party and all of its terms and conditions.

Vessel to be delivered and placed at the disposal of the Charterer, and redelivered by Charterer and placed at the disposal of the Owner in the Point Judith, Rhode Island area, in such dock or at such wharf or place, where she may safely lie, always afloat, at all times of tide, as the

Charterer may direct upon delivery, and as Owner may direct upon re-delivery. If such dock, wharf or place is not available, time to count toward charter hire. Vessel on her delivery and redelivery to be ready to receive passengers and tight, staunch, strong and in every way fitted for the service, on delivery to be employed in carrying passengers in such lawful trades, between safe port and/or ports between San Juan, Puerto Rico and St. Thomas, United States Virgin Islands (the "Trading Area"), as the Charterer or its agents shall direct and on redelivery to be employed in carrying passengers in such lawful trades between safe port and/or ports between Point Judith Rhode Island and Block Island Rhode Island (the "Trading Area") as the Owner may direct, on the following conditions:

1. (a) Insurance shall be provided by Charterer for the period the Vessel is under charter to Charterer (i.e., until redelivery), as follows: hull and machinery, with Owner being named as an additional insured, and Protection and Indemnity coverage in the amount of Nine Million (9) Dollars. The Charterer shall be responsible for all deductibles under the hull and machinery insurance and its protection and indemnity insurance and there shall be no recourse against Owner for damage to the hull and machinery. The Owner shall maintain the Vessel's class. Charterer shall be responsible for all vessel maintenance and repair requirements resulting from operations under this charter, including scheduled maintenance, but excluding major overhaul work to the engines or water jets which ordinarily would have been performed by Owner, were it not for the charter. Charterer shall correct any deficiencies cited by the U.S. Coast Guard in a New-to-Zone or equivalent inspection.

(b) Neither Owner nor Charterer will do any act or suffer any act to be done whereby any insurance required herein shall or may be suspended, impaired or defeated, and neither will suffer the Vessel to be operated under any conditions or in any geographic area

where the effect would be to place the Vessel outside the coverage of the insurance policies in effect.

2. That the Charterer shall provide and pay, after delivery and until redelivery, for all the fuel except as otherwise agreed, port charges, pilotages, agencies, commissions, landing fees and all other usual expenses incurred during the charter period, except as stated herein.

3. That the Charterer, at the port of delivery, and the Owner, at the port of redelivery, shall take over and pay for all fuel remaining on board the Vessel at the current prices in the respective ports.

4. That the Charterer shall pay for the use and hire of the Vessel at the rate of U.S. One Thousand Two Hundred Eighty Five Dollars (\$1,285.00) per day, to be billed and paid monthly in advance, commencing on and from November 15, 2006 until May 1, 2007 and shall continue until the hour of the day of her redelivery in like good order and condition, ordinary wear and tear excepted, to the Owner (unless lost) at port of in or near Point Judith, Rhode Island, unless otherwise mutually agreed. Charterer is to give Owner not less than 24 hours notice of Vessel's expected date and location of redelivery. Hire is to be paid monthly in advance. In the event that any monies are past due, the Charterer will be allowed a five-day grace period on payment to cure after written notice by Owner.

5. Intentionally Omitted.

6. (a) That the Vessel shall load and disembark passengers in any dock or at any wharf or place that Charterer or its agents may direct, so long as all permits, licenses, and other permissions required to do so are valid, unexpired, and enforceable, and provided the Vessel can safely lie always afloat at any time of tide.

(b) The Vessel shall only be used to carry passengers and their usual carry on items such as luggage, bicycles and strollers in the Trading Area unless otherwise approved by Owner, which approval shall not be unreasonably withheld.

7. That the whole reach and burthen of the Vessel's passenger accommodations and lawful deck capacity shall be at the Charterer's disposal.

8. Intentionally Omitted.

9. Intentionally Omitted.

10. That the Charterer and its Captains shall keep a full and correct Log of the voyage or voyages, which are to be patent to the Owner or its agents, and furnish the Owner or its agents, when required, with a true copy of daily Logs, showing the course of the Vessel and distance run and the consumption of fuel. Except for Coast Guard certificate of documentation and certificate of inspection, which shall be obtained and maintained by the Owner, Charterer shall be responsible at Charterer's expense to obtain and maintain all permits, licenses, or other permission required to operate the Vessel in the municipalities and jurisdictions covered by this Charter Party, and such permits, licenses or other permission shall be displayed to Owner upon request.

11. That in the event of the loss of time from deficiency of men or Owner's stores, fire, breakdown or damages to hull, machinery or equipment, grounding, detention by average accidents to ship or cargo, dry-docking for the purpose of examination or painting bottom, or by any other cause preventing the full working of the Vessel, the payment of hire shall cease for the time thereby lost; and if upon the voyage the speed be reduced by defect in or breakdown of any part of her hull, machinery or equipment, the time so lost, and the cost of any extra fuel consumed in consequence thereof, and all extra expenses shall be deducted from the hire.

12. That should the Vessel be lost, money paid in advance and not earned (reckoning from the date of loss or being last heard of) shall be returned to the Charterer at once. The act of God, enemies, fire, restraint of princes, rulers and People, and all dangers and accidents of the seas, rivers, machinery, boilers and steam navigation, and errors of navigation throughout this Charter Party, always mutually excepted. The Vessel shall have the liberty, at the discretion of the Captain, with or without pilots, to tow and to be towed, to assist vessels in distress, and to deviate for the purpose of saving life and property.

13. That any controversy, claim, or dispute arising out of or in relation to this Charter or breach thereof shall be referred to arbitration in the State of Rhode Island, under the Rules of the Society of Maritime Arbitrators, New York, New York. Should any such dispute arise, the matter in dispute shall be referred to a single arbitrator, if the parties can agree on the identity of such arbitrator, or, in the alternative, the matter in dispute shall be referred to three (3) persons pursuant to the Rules of the Society of Maritime Arbitrators, New York, New York, each of the parties hereto to choose one arbitrator, and the third by the two so chosen. The decision resulting from any arbitration proceeding shall be final, and may be enforced by the prevailing party in any appropriate court of competent jurisdiction. The prevailing party in any such proceeding and in any ancillary or related proceedings to enforce an arbitral award or to seek an injunction or other interim relief shall be entitled to recover its costs and reasonable attorneys' fees.

14. Charterer will not suffer, nor permit to be continued, any lien or encumbrance incurred by it or its agents, on the Vessel.

15. Vessel to work night and day, if required by Charterer, up to a maximum of 16 hours per day, in accordance with Vessel's certificate of inspection.

16. The Vessel shall not be required to enter any ice-bound port, or any port where lights or light-ships have been or are about to be withdrawn by reason of ice, or where there is risk that in the ordinary course of things the Vessel will not be able on account of ice to safely enter the port or to get out after having completed loading or disembarking. If the Vessel is or becomes ice-bound, the Charterer agrees to continue to pay hire to Owner.

17. This is a bareboat charter and nothing herein stated is to be construed as a demise of the Vessel to the Charterer.

18. Owner shall pay the costs of positioning the Vessel from its current place of operation to the delivery port at time of delivery, and the Charterer shall pay the costs of repositioning the Vessel back to the redelivery port upon termination of this Charter Party. The Charterer shall pay the cost of any On-Hire Survey done at the time of delivery and the Owner shall pay the cost of any Off-Hire Survey done at the time of redelivery.

19. Notwithstanding any other provision of this Charter Party, Charterer may terminate this Charter Party within fifteen (15) business days of delivery. In the event of such termination, Charterer shall pay the reasonable costs of positioning the Vessel from its then current place of operation to the delivery port at the time of delivery and repositioning the Vessel back to the redelivery port and Owner shall return to Charterer at once hire paid in advance and not earned (reckoning from the date of the termination). In such event Alternate Charterer agrees to perform the Charter Party and all of its remaining terms and conditions.

20. (a) Charterer shall indemnify and hold the Owner, Vessel, Captain, crew and Owner's agents harmless from any liability or costs (including reasonable legal fees) incurred in defense of any claim made by any person arising from injuries or death to persons or damages to

property alleged to have been caused by the consumption of alcohol by passenger(s) on the Vessel.

(b) Charterer will protect and indemnify Owner in full against and for any amounts Owner is required to pay to any third party, including passengers, for personal injuries, death and any other loss to person or property in connection with operation of the Vessel during the term of this Charter Party, including reasonable costs and reasonable attorneys' fees in defense, where caused by the negligent acts of Charterer, its employees or agents but excluding any injury, death or loss where caused by negligent acts of Owner, its employees or agents. Owner will protect and indemnify Charterer in full against and for any amounts Charterer is required to pay to any third party, including passengers, for personal injuries, death and any other loss to person or property in connection with operation of the Vessel during the terms of this Charter Party, including reasonable costs and reasonable attorneys' fees in defense, where caused by the negligent acts of Owner, its employees or agents, but excluding injury, death or loss where caused by negligent acts of Charterer, its employees or agents.

21. Owner represents and warrants that it has obtained all consents required to enter this Time Charter, including without limitation, the consent of The Washington Trust Company, if required, under all applicable financing and security agreements.

22. The persons executing this Charter Party each expressly represent that he or she is authorized to execute said Charter on behalf of his or her organization.

23. This Charter Party constitutes the entire agreement between Charterer and Owner. No oral modification thereof shall be valid or binding nor shall it have any force or effect.

24. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THIS SUBCHARTER AND ANY SUBCHARTERS MADE BY CHARTERER HEREIN ARE

EXPRESSLY SUBJECT AND SUBORDINATE TO ALL APPLICABLE FINANCING AND SECURITY AGREEMENTS BETWEEN THE WASHINGTON TRUST COMPANY AND INTERSTATE NAVIGATION COMPANY, d/b/a THE BLOCK ISLAND FERRY ("THE AGREEMENTS"). THE CHARTERER ACKNOWLEDGES NOTICE OF THE AGREEMENTS, THAT IT WILL RECEIVE AND REVIEW COPIES OF THE SAME, IT ACKNOWLEDGES AND AGREES THAT ANY CLAIM AND ANY RIGHTS IN AND TO THE VESSEL ARE SUBJECT TO THE AGREEMENTS AND IT ACKNOWLEDGES AND AGREES THAT ANY RIGHTS CHARTERER MAY HAVE AGAINST OWNER OR THE VESSEL ARE SUBJECT TO THE AGREEMENTS AND ARE SUBORDINATE TO THE RIGHTS OF THE WASHINGTON TRUST COMPANY.

25. Charterer may cover the existing Owner logo and sign and replace it with a logo and sign of its choosing, provided that the cover and new sign shall be temporary in nature such that the Owner's logo and sign can be readily restored.

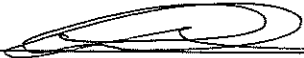
26. This Charter Agreement shall be conditioned upon the performance of an Asset Purchase Agreement dated ~~March~~^{April 5}, 2006 between the parties. In the event said Asset Purchase Agreement is not performed for any reason, this Agreement shall be null and void and without recourse to either party.

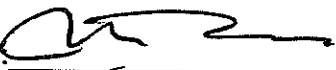
27. In the event the Alternate Charterer shall become the Charterer, then all references to Charterer shall mean and include the Alternate Charterer;

28. Charterer shall not license, lease, sub-charter or otherwise permit the use of the vessel by any third party without the prior written consent of the Owner, which consent will not be unreasonably withheld or delayed by Owner.

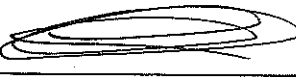
IN WITNESS WHEREOF, the parties have entered into this Bareboat Charter by the signatures of their duly authorized representatives below effective on the date first shown above.

ISLAND HI-SPEED FERRY, LLC (AS CHARTERER)

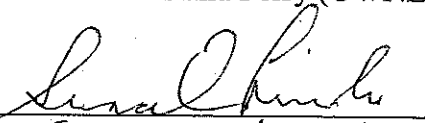
By: 
Name: Frederick Nolan
Title: Operations Manager

By: 
Name: Mark Hagopian
Title: Manager and General Counsel

HARBOR CRUISES, LLC (AS ALTERNATE CHARTERER)

By: 
Name: Frederick Nolan, III
Title: Member

INTERSTATE NAVIGATION COMPANY, INC.
d/b/a The Block Island Ferry (OWNER)

By: 
Name: Susan E. Linda
Title: Pres.